

# FIS Ferrous Weekly Report

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- ⇒ **Iron ore Fe62% CFR China:** short-run **Neutral**. The fast drop in the market was impacted by a global panic on economic recession. In addition, the traditional construction season in China is yet to see clear demand for steels.
- ⇒ **Rebar 25mm Shanghai** short-run **Neutral**. The major types of steels saw negative margins. The mills were waiting for orders to come in. Delayed demand dragged down spot prices, however the long steels delivered in September maintained their support.
- ⇒ **Hard Coking Coal FOB Australia** short-run **Neutral**. Indian end-users believed a much lower price will come in September, while Chinese traders were only interested when they see an uptick on price. Thus, coking coal market was weak over the last two weeks.

Prices Movement	9-Sep	2-Sep	Changes %	Sentiment	
Iron Ore Fe62% CFR China(\$/MT)	91.45	96.15	4.89%	Neutral	-
Rebar 25mm Shanghai (Yuan/MT)	3332.0	3334.0	0.06%	Neutral	-
Hard Coking Coal FOB Australia(\$/MT)	181.50	198.0	8.33%	Neutral	-

## Market Review:

### Iron Ore Market:

Iron ore corrected by 4.89% during past week. The major correction was connected to the overall drop in global equity and commodity markets. Iron ore saw slower demand in September compared to the same period over the past three years.

The risk appetite went down as the concern of economic recession in the US rose after key data in labour and job market was released. However, analysts expected a round of rebound approaching the expected interest rate cut in September. Chinese PPI data annual growth rate in August was down 1.82%, a 23rd consecutive drop, indicating a weakness on industrial demand overall.

Iron ore port stocks were up by 465,700 million tons to 154.09 million tons during past week, refreshing new year and seasonal highs. The port stocks reached seasonal highs, which was 35.41 million tons higher than the same period of past year. Steel mills inventories were 88.58 million tons, which was 1.38 million tons lower than past week. The market potentially saw a shift from port inventories to mills inventories when the construction season start in September. In general, the demand market for steels came in late this year. Iron ore physical side was muted after the big correction during the past week. Traders were waiting for a stabilisation of the market.

Export steels saw resistance because of high tariffs imposed in most of countries in Asia. At the same time, cheaper half-finished steels pushed down scrap prices in CIS and European areas. China EAFs operation rates saw a pick up by 3.08% to 49.23% according to MySteel data, after a drop for three months previously. The increase was believed to become sustainable as the major maintenance ended for most of areas in China. The uptick in operation rates of EAFs potentially squeezed the blast furnace operation rate to some extent. However, the EAFs were also believed as a more sensitive indicators of steel margins.

Virtual steel margins recovered from -71 yuan/ton to -11 yuan/ton, as the static steel price versus fast drop in raw materials. Both virtual steel margin and physical margin were in loss condition in Q2 and Q3. The market saw some production shift from HRC to rebars. Market participants were waiting for a fast destock in HRC, which could drive up steel prices in general because HRC process lines were not spreading broadly as rebars in China. Some eastern China mills started to lock in HRC prices. The apparent consumptions of major steel types of China recovered gradually from mid-August, still at seasonal lows.

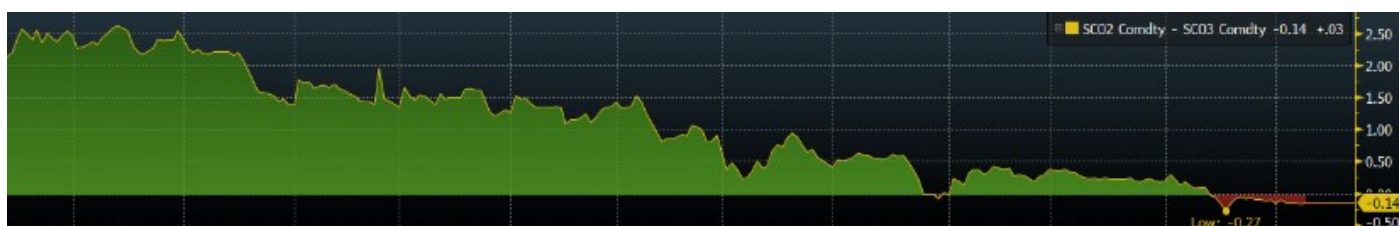
Data Sources: Bloomberg, Platts, Fastmarket, FIS

### Market Review(Cont'd):

The active spread Oct 24/Nov 24 dropped to  $-\$0.30/-0.25$  from  $-\$0.15/-0.10$  in early September. The active spread potentially saw small recovery again as DCE spread was  $\$0.45$  at the same time. The downside room was limited with a comparable higher upside room for the spread.

The MB65-P62 spread forecast range was revised to  $\$11-13$  from  $\$14-16$  for the current two weeks after a sharp drop in steel margins, which dragged down the demand of high grade and premium brands. However a fast recovery in the future could bring the spread back to higher levels.

In general, iron ore potentially see a rebound along with a recovery on global commodity and equities in September. The valuation of iron ore was currently low.



# Iron Ore

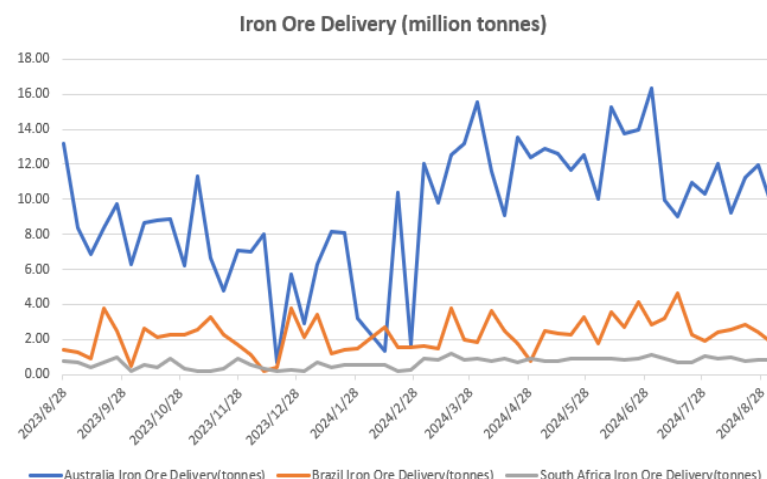
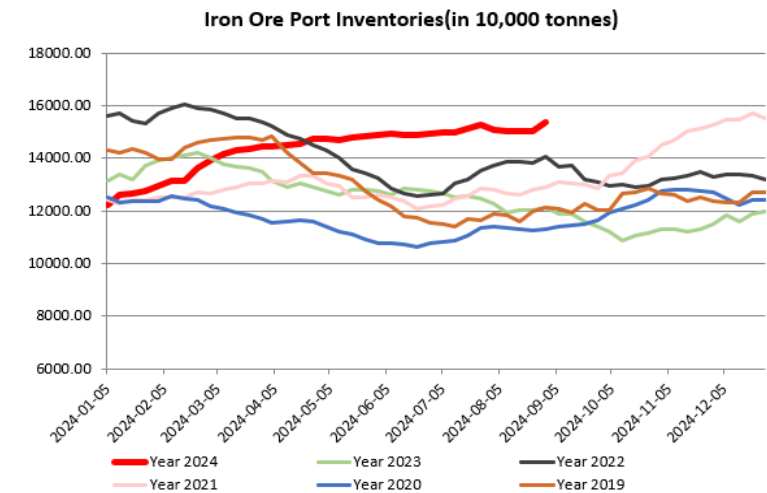
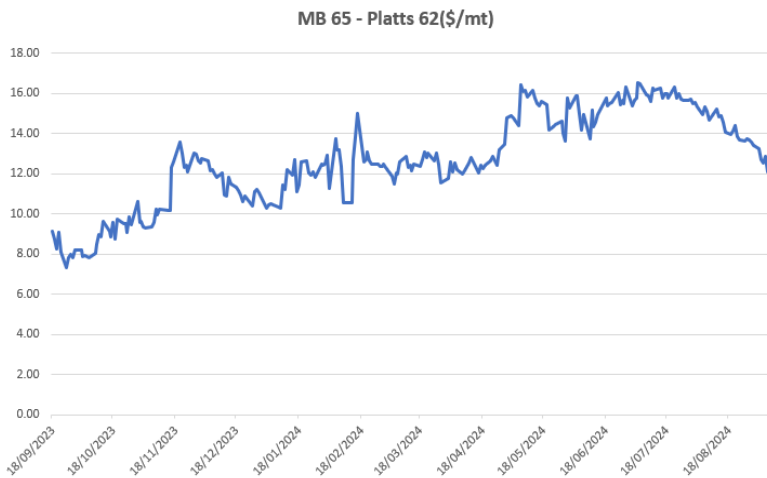
	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	91.45	96.15	-4.89%
MB 65% Fe (Dollar/mt)	103.99	109.4	-4.95%
Capesize 5TC Index (Dollar/day)	28232	26935	4.82%
C3 Tubarao to Qingdao (Dollar/day)	27.915	28.095	-0.64%
C5 West Australia to Qingdao (Dollar/day)	11.96	11.785	1.48%
Billet Spot Ex-Works Tangshan (Yuan/mt)	2760	2960	-6.76%
SGX Front Month (Dollar/mt)	91.70	101.03	-9.23%
DCE Major Month (Yuan/mt)	682	756.5	-9.85%
China Port Inventory Unit (10,000mt)	15,408.95	15,372.38	0.24%
Australia Iron Ore Weekly Export (10,000mt)	973.30	1,194.05	-18.49%
Brazil Iron Ore Weekly Export (10,000mt)	342.86	230.50	48.75%

## Iron Ore Key Points

- MB65—P62 dropped out of the \$14-16 range. The spread potentially stayed in lower range from \$11-13 till the recovery of steel production and margin.

- The iron ore port inventories rebounded to year-high and seasonally high at 154 million tons. The market expect the inventories to shift from port to steel mills in September.

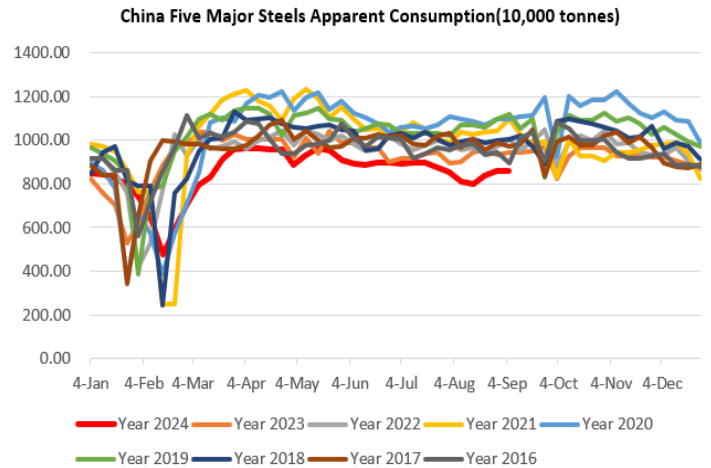
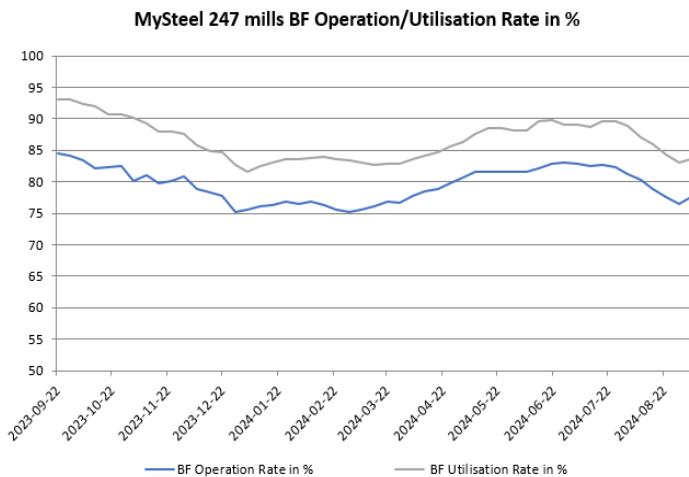
- Brazil delivery picked up significantly in August and expected to maintain high through Q3.



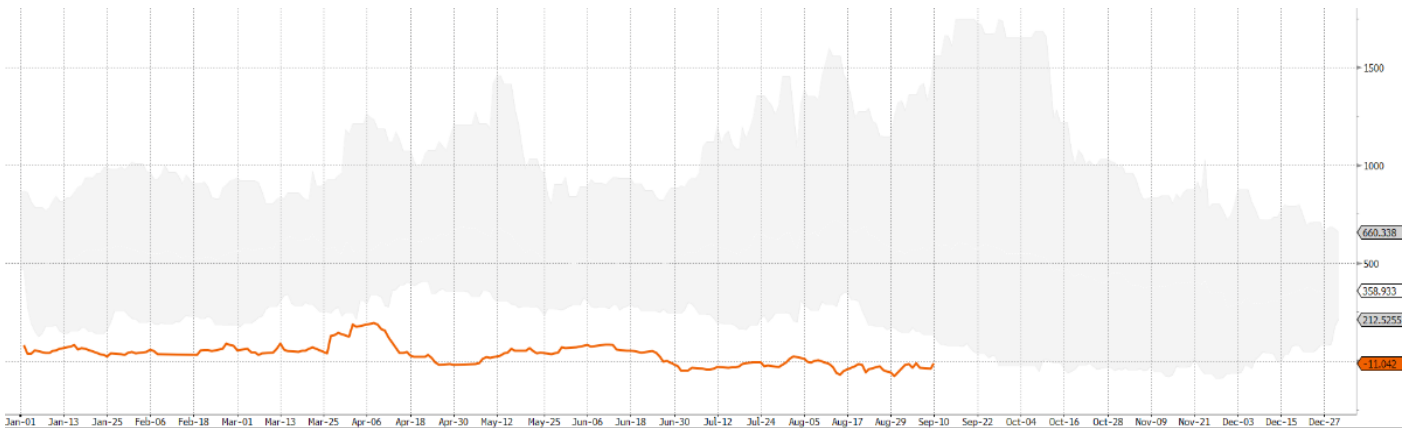
Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

# Steel

	Last	Previous	% Change
<b>US HRC Front Month (Dollar/mt)</b>	700	714	<b>-1.96%</b>
<b>LME Rebar Front Month (Dollar/mt)</b>	575.5	572	<b>0.59%</b>
<b>SHFE Rebar Major Month (Yuan/mt)</b>	3067	3243	<b>-5.43%</b>
<b>China Hot Rolled Coil (Yuan/mt)</b>	3060	3232	<b>-5.32%</b>
<b>Vitural Steel Mills Margin(Yuan/mt)</b>	-11	-71	<b>-84.51%</b>
<b>China Five Major Steel Inventories Unit (10,000 mt)</b>	2489.64	2371.33	<b>4.99%</b>
<b>Global Crude Steel Production Unit (1,000 mt)</b>	82900	91600	<b>-9.50%</b>
<b>World Steel Association Steel Production Unit(1,000 mt)</b>	152,800	161,400	<b>-5.33%</b>



## Virtual Steel Mill Margins (Five-Year Range)



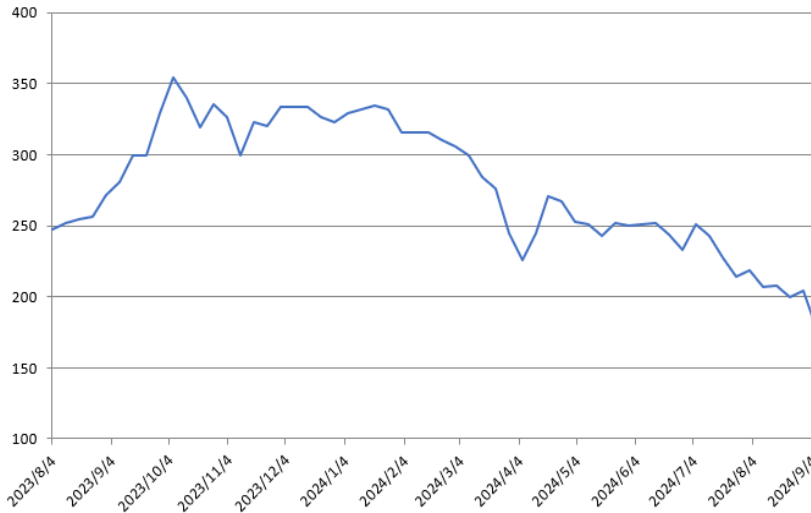
**Data Sources: Bloomberg, MySteel, FIS**

- Virtual steel mill margins curve recovered from -71 yuan/ton to -11 yuan/ton on the week because the static steel price versus a fast drop on raw materials
- During past week, the production increase with fast decreasing inventories drove up apparent consumption of five major steel types in China.

# Coking Coal

	Last	Previous	% Change
<b>TSI FOB Premium Hard Coking Coal (Dollar/mt)</b>	198	196	<b>1.02%</b>
<b>Coking Coal Front Month (Dollar/mt)</b>	204	200	<b>2.00%</b>
<b>DCE CC Major Month (Yuan/mt)</b>	1378	1327.5	<b>3.80%</b>
<b>Top Six Coal Exporter Weekly Shipment(Million mt)</b>	11.88	16.80	<b>-29.29%</b>
<b>China Custom total CC Import Unit mt</b>	10,841,328	9,867,290	<b>9.87%</b>

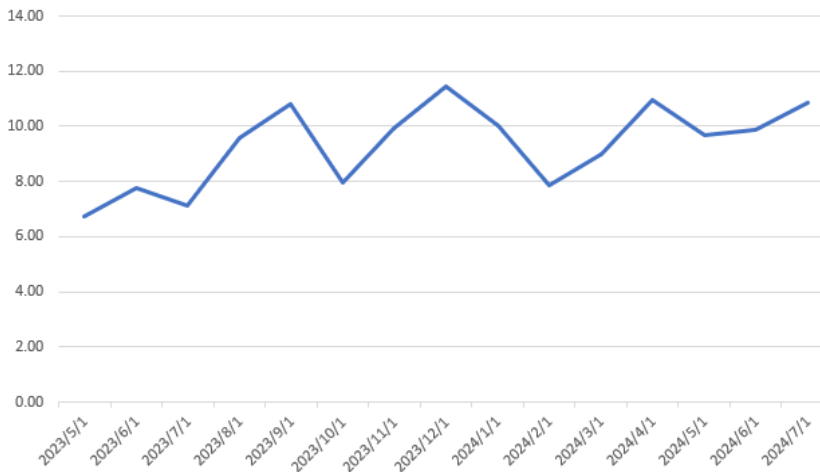
**Coking Coal Front Month Forward Curve**



## Coal Key Points

- FOB Australia coking coal saw correction as Indian buyers went sideways while Chinese importers were waiting for an uptick on derivatives market.
- China steel mills landed a physical coke cut by 50- 55 yuan/ton for the eighth round, total cut 400-440 yuan for the past eight rounds.

**China Custom Total CC Imports(million tonnes)**



Data Sources: IHS Commodities at Sea Service, Bloomberg, FIS

# FIS Ferrous Fact Sheet

**Australia HCCLV Peak Downs:** An important hard and low volatility coking coal benchmark brand in Australia with prime quality and higher price.

**Backwardation Market:** when futures prices are lower than the underlying physical prices or front months are higher than deferred months contracts.

**Contango Market:** when futures prices are higher than the underlying physical prices or front months are lower than deferred months contracts.

**Cost Saving Strategy:** refers to steel mills focusing on lower variable costs to maintain profit margin.

**Ferrous Industry Chain:** Upstream materials included iron ores concentrates/lumps/pellets, scrap/pig iron/HBI/DRI, Coking coal, semi-soft coals or other coals, Ferroalloys, and different furnace or EAF materials. Midstream commonly refers to semi-finished steels, including crude steels, or finished steels, structured steels, flat steels, HRC/CRC, rebar, etc. Downstream meant the end-users of steels, including housing, infrastructure, auto-making, energy market, shipbuilding, housing appliances, containers, and mechanics.

**Flat Steel:** Finished steels are categorised by wide-belt and narrow belts—normal flat steel including hot-rolled steel or cold-rolled steel. Downstream markets are auto making, electrical appliances and thin and flat steel-using industries. Flat steels are the most active international trading steel type.

**Iron Ore Lump:** Natural bulks iron ore. Lumps are directly added to a blast furnace, which has premiums to iron ore concentrates.

**Iron Ore Pellets:** Semi-processed iron ore to make concentrates into pellets after sintering. Pellets are acidic, which adjusts the acidity and alkalinity of a blast furnace. Pellets have premium to iron ore concentrates.

**Long Steel:** Finished steel, including wire rods and rebar, is generally related to the housing building market.

**More or Less Clause:** Trade Terms. In iron ore seaborne trading, the weight could differ from loading to arrival ports because of increased moisture rates. For example, some customs accept a 10% maximum moisture rate on some brands of iron ore. In steel trading by trucks or trains, there is usually a certain percentage of weight difference tolerance between quality test and contract.

**Rebar 25mm Shanghai:** The most volatile physical steel product traded in China and the major exported brand. SGX's rebar contract was highly correlated to this physical brand.

**Steelmaking Process:** The process typically included the BF-Converter process and EAF process. The U.S. and West Europe are using EAFs. Pig iron/scrap is a significant input for EAFs. China, Japan, and India are using BF-Converter majorly. The materials include iron ores, cokes, and coking coals.

**SGX—DCE Difference:** The SGX settlement price minus the DCE value after normalised by VAT, ferrous grade, and foreign exchange.

**Virtual Steel Margin:** Calculating the futures steel margins by a complex of rebar, iron ore and coking coal to represent the leading indicator of physical steel margin.

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